

Message Text

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PAGE 01 TEL AV 08525 071027Z
ACTION EB-08

INFO OCT-01 EUR-12 NEA-10 ISO-00 CAB-02 CIAE-00
COME-00 DODE-00 DOTE-00 INR-10 NSAE-00 FAA-00
L-03 H-01 SS-15 NSC-05 SP-02 XMB-02 /071 W
-----042615 080656Z /10

R 070935Z JUL 78
FM AMEMBASSY TEL AVIV
TO SECSTATE WASHDC 4017
INFO AMEMBASSY ATHENS
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME

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E.O. 11652: NA
TAGS: EAIR, BEXP, IS
SUBJECT: EL AL PURCHASE OF AIRCRAFT

REF: ROME 12281

1. EMBOFF SPOKE WITH EL AL SENIOR VICE PRESIDENT HARLEV WHO CONFIRMED SUBSTANCE REFTEL. HE STATED THAT THERE HAD BEEN A "MISUNDERSTANDING" WITH LOCKHEED WHICH DEVELOPED TWO DAYS BEFORE LOCKHEED TEAM DEPARTED TEL AVIV. THIS HAD TO DO WITH ESCALATION OF PRICES. APPARENTLY, LOCKHEED PROPOSAL HAD BEEN IN 1978 PRICES, BUT SINCE ITS PLANES WILL NOT BE DELIVERED UNTIL LATE SUMMER 1979. LOCKHEED INSISTS ON AN ESCALATION CLAUSE TO COVER INCREASED COSTS. THE ESCALATION IS ABOUT \$8 MILLION OVER THE 1978 PRICE QUOTED.

2. HARLEV EMPHASIZED THAT WITHOUT ESCALATION LOCKHEED

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OFFER WOULD BE VERY COMPETITIVE. AIRBUS IS NOT INSISTING ON ANY ESCALATION CLAUSE DESPITE THE FACT THAT THEIR PLANES WILL BE DELIVERED AT THE BEGINNING OF SUMMER 1979. HARLEV STATED LOCKHEED PROMISED TO SEND A FINAL OFFER WITHIN NEXT FEW DAYS TO EL AL.

3. ACCORDING TO LOCKHEED, THE SCHEDULE FOR A FINAL
DECISION IS:

DECISION AND ACCEPTANCE OF OFFER -

EITHER L-1011 OR AIRBUS - JULY 29

NEGOTIATIONS OF SPECIFICATIONS

AND CONTRACT - SEPT. 15-30

GOI APPROVAL - OCT. 15-NOV. 15

FINANCING - NOV. 15-JAN 15

4. ON JULY 7 EMBOFF EXPRESSED EMBASSY'S POSITIVE
INTEREST IN SELECTION OF U.S. MANUFACTURED AIRCRAFT
BY EL AL TO DANNY NAHMIAS, ASSISTANT TO MINISTER
OF TRANSPORT MEIR AMIT.

5. COMMENT: AFTER A PERIOD OF MUCH OPTIMISM, LOCKHEED
AND ROLLS ROYCE ARE NOW RATHER PESSIMISTIC. THE
MISUNDERSTANDING OVER THE ESCALATION CLAUSE,
WHICH IS UNFORTUNATE, IS BASICALLY A QUESTION
OF PRICE SINCE AIRBUS IS NOT ADJUSTING ITS 1978 OFFER
TO TAKE CARE OF INFLATION. EITHER COSTS ARE VERY
STABLE IN FRANCE AND GERMANY OR AIRBUS IS SHAVING
ITS PRICES TO THE BONE IN THE EXPECTATION THAT IT
WILL MAKE UP ANY LOSS BY THE SALE OF PLANES ON
OPTION.

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6. AS EXPECTED, EL AL IS DRIVING A HARD BARGAIN AND
THE MANUFACTURING COMPANY WILLING TO PAY THE MOST
FOR ACCESS TO A NEW MARKET WILL WIN THE CONTRACT.
LEWIS

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